

**MINUTES OF MARCH 2, 2016 RETIREMENT BOARD
CITY OF ALEXANDRIA
SUPPLEMENTAL RETIREMENT PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Jack Browand, ² (Management)	Barry Bryant, Dahab
Shane Cochran, ^{1, 3} Chairman (General Schedule)	Kadira Coley, Staff
Charles Curia (Medic, Alternate)	Mary Jane Cullinan, Rothchild
James Davis (Management, Alternate)	Michael Fleishe, Brandywine
Brenda D'Sylva ³ (General Schedule, Alternate)	Gary Hampton, MFS
Robert Gilmore ^{1,3} (Deputy Sheriff)	Mark Juelis, Brandywine
Jean Kelleher ^{1,3} (Management)	Sean Kenney, MFS
Nancy McFadden (Medic)	Arthur Lynch, Staff
Marietta Robinson (General Schedule)	John C. Thomas, Rothchild
Lillian Vagnoni (General Schedule, Alternate)	
Christina Zechman Brown (Management)	

Absent:

Laura Triggs, ^{2,3} Secretary (Management)
Valarie Wright (Deputy Sheriff, Alternate)

¹Technical Corrections and Plan Document Review Committee

²Vendor & Service Provider

³Ad-hoc Evaluation Criteria Committee

CALL TO ORDER

The meeting was called to order at 8:39 AM on March 2, 2016.

LARGE CAP VALUE OVERVIEW

Mr. Bryant gave an introduction and overview of large cap value equities. He started by reminding the board that they can choose a manager from the group presenting today or choose to leave money in Vanguard Index Fund.

- Value versus growth
 - Growth grows faster – generate cash, holds up better in downturn
 - Value - Lower P/E, slower growth, financial leverage
 - Value typically outperforms growth, but not so in the past 7 to 8 years
- Differentiators
 - Brandywine is deep value manager
 - P/E trailing ration 12.8 – thus buying cheaper companies
 - Price of stock divided by earnings
 - Turnover ratio – extent to which they sells stocks in a year.
 - Brandywine holds stocks for less than a year
 - MFS holds stocks for years and years
 - Process – quant vs. fundamental
 - Quant - Model that picks stocks based on factors – dozens of factors that could be used

- Fundamental – review companies in detail, not just earnings, and make projections based on how the company works. May visit companies. Tend to be lower turnover. Computer may do initial screening then do fundamental research. MFS & Rothchild are both fundamental managers
- Upside vs. Downside Capture
 - Upside if market goes up 100 point how much does the strategy go up
 - Downside if market goes down how much does the strategy go down
- Brandywine is a newer strategy establish in 2007
- Brandywine is cheapest but the spread between the highest and the lowest is not enough to drive the decision
- Performance
 - Brandywine has best performance of the 3 firms per figures summarized by Dahab.
 - Dahab noted the their initial screen would have eliminated all managers who had underperformed the benchmark in 2008
- Bottom up vs. Top Down
 - Glovista – look at total macro economy. Does not get down to company level
- Standard Deviation
 - Volatility is a measure of risk – how much something goes up and down is a measure of risk
 - Alpha – excess return including risk
 - Brandywine is a bit more volatile

LARGE CAP VALUE FINALIST PRESENTATIONS

Brandywine

- Brandywine began their presentation at 9:20am
 - Mark Juelis – Vice-President
 - Michael Fleisher – Portfolio Manager for Dynamic Large Cap Value
- Brandywine uses a shifting tool to drive investments based on two types of markets
 - Broad Market– decrease exposure in value and increase exposure to quality. Increase price momentum
 - Deep Value– increase exposure to value and decrease exposure to quality but still wed to quality increase
- Goal is to outperform Russell1000 significantly (defined as greater than 3%). Minimize underperformance to mitigate by 2% or less. Avoid sustained underperformance (less than 2 years in a row).
- Fee schedule – fee is 30 bps until Oct 2016 – 40 bps thereafter
 - Special fee arrangement because we are a client of Dahab
- Brandywine left at 10:00 am

MFS

- MFS began their presentation at 10:01am
 - Sean Kenney – Director of Institutional Sales
 - Gary Hampton – Associate Director Investment Product Specialist
- MFS stands for Massachusetts Financial services
- Investment beliefs
 - Market is short-term oriented – creates opportunity for long-term investors seeking high quality companies – paying the right price for company – be patient and focus on quality and valuation
 - Access quality and valuation properly – through teamwork and collaboration
 - Take risk where they have demonstrable skill – security selection

- Business structure – well diversified business
 - Diversified, including globally for total AUM
 - 20% firm is available for employee ownership
 - Investment staff turnover under 4% - very low
- Key characteristics of fund
 - Strong Risk-adjusted performance, valuation discipline (not overpaying for companies), quality focus and global research platform
 - Portfolio managers focus on generating alpha and portfolio manager and specialist do the face to face work.
- Investment approach
 - High quality business that you are not overpaying for (quality and valuation)
- Investment process
 - 1000 companies plus multinational peers
 - Narrow by quality characteristics to 250 to 300 companies
 - Then look at valuation and select 80 to 100 holdings
- Global research platform
 - 94 fundamental research analysts – work internationally in teams
 - Equity & fixed income teams work together
- MFS left at 10:35 am

Rothchild

- Rothchild began their presentation at 10:40 am
- Direct relationship with two who gave presentation
 - John C. Thomas, Senior Managing Director
 - Mary Jane Cullinan, Managing Director
- Investment process
 - Two research platforms – one run by computers (quant tool) combined with a research platform
 - Quant tool is proprietary – evaluation for quality and earnings potential – tool is run daily. Expectational upside – whatever could drive the stock forward look at value and expectational upside
 - Fundamental analysis – look at balance sheets- job to vet principals
 - Portfolio construction – limit to 5% past benchmark allocations. Forces focus on stock selection.
 - Benchmark consciousness. Less than 3% cash and not individual position greater than 2% of the benchmark
- The question was asked as a firm do you pay attention to the individual quarters. Rothchild responded that they manage for one year to 18 months out
 - Try to find the best stock within each sector.
 - Average holding times – 55 to 75% turnover – typically hold for 1 to 1.5 years.
 - Each stock is evaluated is the same way, current holding versus completely new holding
 - Relative value manager – will not always stick to traditional value stocks. i.e. portfolio will hold Apple stock.
 - Rothchild left at 11:25am

LARGE CAP VALUE FINALIST – BOARD DISCUSSION

- Mr. Davis noted that all 3 companies were very strong. Large Cap Value movement towards passive investing. He stated that he was interested to hear more about active versus passive.
- Mr. Bryant point out that the Board has an option remain passively invested and they could vote to leave the money in the Vanguard index fund.

- Active management has not done well in comparison to passive since financial crisis. Thought that active management will do well in the next intermediate term.
- Mr. Bryant will lead the Board through a comprehensive review of active vs. passive before the end of the year
- The more inefficient market the more value an active manager can add
- Mr. Bryant's general belief is opposite of logic in that active management does better in less crazy market than crazy markets. Would want passive manager in crazy market because valuations do not make sense
- MFS if choosing stylistically because they focus on high quality
- A trustee noted that they like that MFS takes a global view of US stocks
- Brandywine – board members thought it was a positive that they are disciplined to go with the findings of their model.
- Rothchild – numbers are gross not net., Brandywine's composite numbers are net and still beat Rothchild's numbers

Mr. Gilmore made a motion to

Select Brandywine as fund's large cap value manager.

Mr. Browand seconded the motion. The motion was unanimously approved (8 – 0).

NEW BUSINESS

Staff has been working to finalize the Standish contract as the global fixed income manager. Standish is requesting formal documentation of someone to execute documents on behalf of the board. Staff has requested the board approve a motion to allow the board's elected chairperson or secretary execute documents on behalf of the board.

Ms. Kelleher made a motion to

Authorize the board's chairman or secretary to execute documents on behalf of the board.

Mr. Davis seconded the motion. The motion was unanimously approved (8 – 0).

NEXT MEETINGS

1. Wednesday – April 6th at 8:30 AM, Sister Cities 1101, Interim Meeting
2. Thursday – May 12th at 8:30 AM, Sister Cities 1101, Due Diligence Meeting
3. Thursday – June 9th at 8:30 AM, Sister Cities 1101, Annual Educational Retreat

ADJOURNMENT

The meeting adjourned at 12:04 PM.

HANDOUTS

Distributed to Board members at the Meeting:

Dahab's LCV Finals Book
 Brandywine's Large Cap Value Presentation
 MFS's Large Cap Value Presentation
 Rothchild's Large Cap Value Presentation